

The Administration's plan calls for stable investment spending averaging \$91 billion a year (\$85 billion in 1995 dollars) during the FYDP period. But within that overall category, the mix of spending would change. The Bush Administration cut procurement funding dramatically between 1990 and 1993 while keeping spending for research and development high—a pattern that the Clinton Administration continued in 1994 and 1995. By the end of the decade, however, the Administration plans to shift DoD budget resources back into procurement as the services begin to buy the F-22 and F/A-18E/F aircraft, the new attack submarine, and the Comanche helicopter. Total investment spending would remain stable under the FYDP because RDT&E spending will decline toward the end of the decade as those weapon systems move out of their development phases and into production.

Army procurement spending will face the most severe decline, dropping 61 percent in real terms from its 1990 level by 1999 (see Table 7). Because the Army purchased a new generation of more sophisticated tanks, combat helicopters, and missiles during the 1980s, modernization is less of a priority within the Army's budget. Navy and Air Force investment spending would not be cut as severely as investment spending for the Army, and the two services show trends similar to those for DoD as a whole. Procurement spending by the Navy and Air Force has already faced its steepest decline—between 1990 and 1995—and is now to be followed by an infusion of resources toward the end of the decade. Conversely, spending for RDT&E would not experience as severe a percentage reduction during the early part of the FYDP but would then decline throughout the remainder of the decade. Relative to 1990 levels, the Air Force will face the smallest percentage cuts in procurement spending among the services.

CHANGES SINCE THE FYDP WAS RELEASED

There have been a number of developments since the Administration released its defense plan in February 1994.

Congressional Actions

A number of Congressional actions during debate over the 1995 budget could reduce the resources available for defense or raise DoD's costs.

Discretionary Caps Call for Real Cuts in Spending. Current restrictions on federal spending are quite tight. The Budget Enforcement Act of 1990 and the Omnibus Budget Reconciliation Act of 1993 (OBRA-93) set limits on

discretionary spending through 1998 in order to restrain the federal budget deficit (see Table 8). Those caps effectively freeze discretionary spending in nominal terms, calling for a 9 percent real reduction in total discretionary spending by 1998 relative to the 1994 level.

The Violent Crime Prevention Act, which was signed into law in September 1994, could further restrict some types of discretionary spending. The act establishes a Violent Crime Reduction Trust Fund, which will finance federal, state, and local law enforcement or crime prevention programs with savings from reducing federal civilian employment under guidelines set in the Federal Workforce Restructuring Act of 1994. But the Crime Prevention Act also effectively lowers the discretionary spending cap applicable to most defense spending by establishing two sets of spending lids: one for crime enforcement and prevention programs and one for all other discretionary spending. By separating funds for crime programs, the act could further re-

TABLE 7. PROPOSED PROCUREMENT AND RDT&E SPENDING, BY SERVICE
(By fiscal year)

	Budget Authority (Billions of 1995 dollars)			Real Percentage Change		
	1990	1995	1999	1990- 1995	1995- 1999	1990- 1999
Army						
Procurement	16	6	6	-62	3	-61
RDT&E	6	5	3	-13	-37	-45
Navy and Marine Corps						
Procurement	40	17	22	-58	33	-44
RDT&E	11	9	6	-18	-31	-43
Air Force						
Procurement	35	18	22	-48	21	-37
RDT&E	16	12	9	-21	-27	-42

SOURCE: Congressional Budget Office based on data from the Department of Defense.

NOTES: For the purposes of this table, the values for the National Defense Sealift Fund over the 1995-1999 period were included in Navy procurement spending and excluded from other adjustments.

RDT&E = research, development, test, and evaluation.

TABLE 8. HOW TIGHT ARE THE DISCRETIONARY SPENDING CAPS?
(By fiscal year, in billions of dollars of current budget authority)

	1995	1996	1997	1998	Total, 1995-1998
Discretionary Caps^a					
Violent Crime Reduction Trust Fund	2	4	5	6	17
All other discretionary spending	<u>516</u>	<u>514</u>	<u>522</u>	<u>525</u>	<u>2,077</u>
Total	518	518	527	531	2,094
Funding Needed to Preserve Real 1994 Spending Level^b	518	540	557	579	2,194
Amount Over Caps	0	22	30	48	100

SOURCE: Congressional Budget Office.

a. CBO's August 1994 estimate of future end-of-session discretionary spending limits.

b. Includes adjustments for inflation of about 3 percent a year.

strict spending for defense, international, and noncrime domestic programs, unless some of those programs are eligible for funding under the trust fund.

In 1991 through 1993, three separate caps applied to defense, international, and domestic appropriations, but in 1994 through 1998, a single limit applies to all discretionary spending. The absence of "firewalls" between defense and other types of discretionary spending means that the Administration and the Congress must evaluate their priorities among those categories of programs. Under its plan, the Administration would cut real annual spending for national defense (including DoD, Department of Energy spending on nuclear weapons production and environmental cleanup, and other defense-related programs) by about 12 percent by 1998 relative to 1994 levels. Those cuts would account for nearly 80 percent of total reductions in discretionary spending over the 1995-1998 period.²² International and domestic programs would experience real cuts of 10 percent and 5 percent, respectively, under the Administration's plan, but they would account for just

22. CBO, "Planning for Defense," p. 5.

20 percent of the overall reduction. If the Congress and the Administration chose to accommodate higher defense costs over the next several years, they would also have to cut nondefense spending by the same amount in order to abide by the discretionary spending caps.

The Concurrent Budget Resolution Could Cut Discretionary Spending Further. The Concurrent Resolution on the Budget for 1995, which was passed in May 1994, could cut \$26 billion in budget authority and \$9 billion in outlays from discretionary spending between 1995 and 1998, relative to the caps contained in OBRA-93.²³ Those additional cuts were included in the Senate's budget resolution, with higher levels of discretionary spending in those years subject to a point of order. The Congress has not allocated those cuts (or, indeed, any discretionary spending) among federal agencies for the 1996-1998 period, but defense spending accounts for roughly half of all discretionary spending. In 1995, DoD's budget was spared: of about \$7 billion in cuts to discretionary budget authority under the budget resolution, final appropriation actions cut less than \$2 billion from the President's request for national defense.

It is important to note that additional cuts set by the Senate for 1996 through 1998 are not necessarily binding for those years. According to the 1995 resolution, future budget resolutions could override those targets by a three-fifths vote of the Senate. For that reason, what is represented as a \$26 billion reduction in discretionary budget authority may or may not be imposed, particularly in light of the substantial changes in the makeup of the Congress.

Pay Raises Are Likely to Be Higher than Under the Administration's Plan. Under current guidelines, civil servants receive two types of raises, unless the President proposes and the Congress approves other amounts. The first is tied to the employment cost index, a measure of wage costs observed in the economy as a whole. Federal civilian workers receive an increase equal to the percentage increase in the ECI minus one-half of a percentage point as an across-the-board pay increase. The second adjustment to pay is a locality increase that varies by city and is designed to narrow gaps between federal and local pay scales. Although federal civilian employees have been eligible for the combination of across-the-board raises and locality pay adjustments since 1992, the President did not request nor did the Congress approve pay raises as large as guidelines would allow for either 1994 or 1995.

23. Several press articles have stated that the 1995 budget resolution would cut discretionary budget authority by \$31 billion and outlays by \$13 billion over the 1995-1999 period relative to the budget caps. But OBRA-93 only specifies discretionary caps through 1998, and the language of the resolution itself only includes discretionary cuts through 1998.

Under equivalent guidelines, military personnel will also receive an across-the-board pay raise equal to the ECI minus one-half of a percentage point, but they will not receive a locality pay adjustment. They do, however, receive some forms of compensation other than basic pay that vary with the local cost of living, such as housing allowances.

For 1995, the Congress approved pay increases for both military and civilian workers that were higher than those proposed by the Administration. Military personnel will receive a 2.6 percent across-the-board pay raise. Civilians will receive a 2.0 percent across-the-board raise, and locality adjustments for those who are eligible will add another 0.6 percent to the federal civilian payroll. By comparison, the Administration had budgeted only a 1.6 percent across-the-board raise for 1995 within its FYDP, and it would have held pay raises a full percentage point below current law through the remainder of the decade. CBO estimates that pay raises granted to military and civilian workers for 1995 will add \$5.6 billion to payroll costs over the 1995-1999 period.

Under available projections of the ECI and current guidelines, future pay raises could add to the FYDP's costs as well. Raises for military personnel would be an additional \$5.6 billion, and comparable raises for DoD's civilian employees would add another \$3.6 billion. Carrying out the locality pay adjustment according to schedule would require \$7.9 billion. Altogether, future pay raises could total \$17 billion over the 1996-1999 period. Note, however, that the Administration's projections of the ECI for 1996 are likely to be revised downward, which would lower the cost of providing pay raises. The Administration and the Congress could also choose to grant pay increases different from current guidelines, as they did in 1994 and 1995. Indeed, although the Administration has proposed full pay raises for military personnel throughout the remainder of the decade, it has remained noticeably quiet on the issue of civilian raises.

Possible Additional Adjustments for Covering Higher Inflation Costs

When the Administration released its FYDP, it included a \$20.1 billion negative adjustment—an acknowledgment that future cuts might be necessary to cover the approximate cost of higher inflation expected over the 1995-1999 period. That \$20 billion gap resulted when the Office of Management and

Budget (OMB) revised its inflation forecasts upward at the end of 1993 relative to the projections originally used to create the defense budget.²⁴

OMB's revised inflation forecast as of July 1994 has remained unchanged (see Table 9). If inflation projections had declined, that trend would have reduced the need for any future programmatic changes in the budget. But current projections suggest that some additional cuts will be necessary, although the precise magnitude of the effects of inflation is unclear. CBO's latest forecast projects lower rates of inflation than does OMB, which could significantly reduce the size of future adjustments required over the 1995-1999 period. According to Administration officials, the most recent inflation projections—which are due to be released with the proposed budget for 1996—could substantially lower the need for future adjustments.

Actions by the Administration

In the fall of 1994, the Administration conceded that its defense plan was likely to face a shortfall larger than the \$20 billion reduction described as "future adjustments." In testimony before the Senate Armed Services Committee, Deputy Secretary Deutch stated that the Administration considered its defense shortfall to be on the order of \$40 billion; that figure included inflation, the cost of higher pay raises, and some additional funding to support Army readiness and initiatives to improve the quality of life for military personnel.²⁵ In preparing for its 1996-2001 defense plan, the Administration has taken several steps to deal with the shortfall, but it is not yet clear whether those actions are sufficient to address the entire amount.

Savings from Acquisition Reform Are Not Reflected in DoD's Budget. In developing the Administration's entire budget for 1995, OMB included estimates from the National Performance Review that reform of the federal procurement system would result in savings in budget authority of \$0.7 billion in 1995 and \$12.3 billion over the 1995-1999 period. Those estimated savings were included in the Administration's 1995 budget as an unallocated governmentwide allowance. For 1995, DoD was asked to absorb about 45 percent of that year's value—\$315 million. If DoD was required to face that

24. The pattern of DoD's adjustments from 1996 to 1999 is not consistent with an inflation overrun: the reductions specified for the earlier part of the period are larger than those for the end of the decade. OMB attributes that pattern to other programmatic adjustments that were made simultaneously.

25. Statement of John Deutch, Deputy Secretary of Defense, before the Senate Armed Services Committee, September 20, 1994.

**TABLE 9. PERCENTAGE CHANGE IN ESTIMATED INFLATION,
FISCAL YEARS 1995-1999**

	1995	1996	1997	1998	1999
Administration and CBO Estimates from 1993	2.3	2.3	2.2	2.2	n.a.
Administration's Estimates from February 1994	2.8	2.9	3.0	3.0	3.0
Current Administration Estimates	2.8	2.9	3.0	3.0	3.0
Current CBO Estimates	2.5	2.6	2.7	2.7	2.7

SOURCES: Congressional Budget Office and Office of Management and Budget.

NOTE: Values are estimated increases in the implicit deflator for gross domestic product.

n.a. = not available.

same share of total acquisition savings from 1996 through 1999, it would need to cut its plan by \$5.1 billion, either by making programmatic changes or by reducing acquisition costs.

Note that it is inappropriate to add the reductions associated with acquisition reform to cuts that may result from the Concurrent Resolution on the Budget. The two are not additive but parallel—savings achieved as a result of procurement reform in DoD's budget would help meet the targets set in the budget resolution.

The Administration Has Decided to Seek Higher Defense Spending. On December 1, 1994, the President announced that he plans to seek an additional \$25 billion for defense over the 1996-2001 period. Of that amount, \$10 billion would be added during the period covered by CBO's analysis, 1996 through 1999. Administration officials have stated that the funds would help to maintain military readiness, raise military pay, and support programs to improve the quality of life of military personnel. In addition, the President will seek a supplemental appropriation of more than \$2 billion for 1995 to replace funds spent on contingency operations.

Directives for Additional Cuts Could Help Meet the Shortfall. According to press accounts, in April 1994, the Office of the Secretary of Defense (OSD)

directed the military departments to reduce their 1996-1999 budgets by nearly \$10 billion.²⁶ The directive was part of OSD's fiscal guidance to the services—that is, DoD's set of assumptions to be used in planning its budgets for 1996 through 2001. Although those reductions address only half of the Administration's reported \$20 billion future adjustment, the services have probably been participating in other "budget scrubs" as well.

In mid-August 1994, Deputy Secretary Deutch sent a memo to the military departments asking that they examine the implications of delaying or canceling nine major weapon acquisition programs, including some considered to be among the highest priorities of the military services, such as the Air Force's F-22 fighter (see Table 10). The sending of the memo suggests that the Administration recognized a significant mismatch between available resources for defense and the force structure planned in its Bottom-Up Review.

Secretary Perry announced the Administration's proposed cuts on December 9, 1994. Two of the nine programs face the most severe changes: the Tri-Service Standoff Attack Missile will be canceled, and although the Army will purchase two prototypes of its Comanche helicopter, no others will be produced during the 1996-2001 period. Five other weapons programs will be affected as well (primarily delayed or stretched out): the DDG-51 destroyer, the new attack submarine, the V-22 Osprey aircraft, the advanced amphibious assault vehicle, and the F-22 fighter. The Administration expects that its proposed changes will reduce defense costs by \$7.7 billion over the 1996-2001 period. Approximately \$6 billion of that amount would affect the period covered by CBO's analysis.

For most of the weapon systems at issue, the Administration had asked the services to propose alternative programs that would presumably cost less during the FYDP period (although in some cases they would cost more over the long run). If instead the Administration had proposed canceling all of those major programs without including funds for alternative systems, then total spending during the FYDP period would fall by \$47 billion.

Additional Cuts in Civilian Personnel Could Help Address the Shortfall. Two memos released by the Under Secretary of Defense for Personnel and Readiness, Edwin Dorn, in the summer of 1994 suggest that the Administration may raise its targets for cuts in civilian personnel levels. New guidelines will reflect reductions made in accordance with the National Performance Review

26. Margo MacFarland, "OSD Directs Services to Cut Nearly \$10 Billion Between FY-96 and FY-99," *Inside the Pentagon* (May 5, 1994), p. 1.

TABLE 10. FUNDING IN THE 1995-1999 FUTURE YEARS DEFENSE PROGRAM FOR WEAPON SYSTEMS BEING EVALUATED FOR DELAY OR TERMINATION, BY SERVICE (In billions of current dollars of budget authority)

Weapon System	Funding
Army	
Comanche helicopter	3
Advanced Field Artillery System	1
Air Force	
Joint Primary Aircraft Training System	1
F-22 fighter	13
Tri-Service Standoff Attack Missile	2
Navy and Marine Corps	
V-22 Osprey aircraft	5
DDG-51 destroyer	15
New attack submarine	7
Advanced amphibious assault vehicle	a
Total	47

SOURCE: The list of weapon systems is based on John Deutch, Deputy Secretary of Defense, "Memorandum for Members of the Defense Resources Board" (August 18, 1994). The funding values were estimated by the Congressional Budget Office based on data from the Department of Defense.

a. Less than \$500 million.

and the Federal Workforce Restructuring Act of 1994. The ultimate size of new employment targets will remain uncertain until the Administration introduces its budget plan for 1996. But to illustrate the effects of such a policy, if the Administration reduced DoD's civilian workforce by an additional 40,000 people between 1995 and 1999, it could lower defense costs by about \$5 billion. Those higher targets would ultimately reduce DoD's civilian employment by 30 percent over the 1990-1999 period, which is comparable to the reduction planned for active-duty military personnel.

OTHER PRESSURES ON THE FYDP'S "TOP LINE"

Several other factors lead CBO to conclude that DoD is likely to face significant upward pressure on its costs during the remainder of the decade.

"Nontraditional" Defense Spending

The term "nontraditional" has been used to refer to a number of activities managed and financed through the Defense Department that do not relate directly to DoD's established role of preparing to fight wars. A broad interpretation of nontraditional spending might include DoD's environmental cleanup programs, efforts to convert defense manufacturers to civilian or dual-use production, drug interdiction campaigns, and the like (see Table 11). But the term is a misnomer, since DoD has been conducting several of those activities for many years. The department has, for example, long supported research and development into dual-use technologies, but only recently has the Administration chosen to emphasize them as a matter of policy.

Some Members of Congress argue that DoD's responsibilities have expanded at the same time that its budget has contracted, and the resulting squeeze on resources could jeopardize the readiness of U.S. forces to conduct combat operations. Although it is difficult to identify a consistent stream of budget data for many of these nontraditional categories of spending, it does appear that between 1990 and 1994 (a period of real cuts in the total defense budget), funding for several categories of such activities has grown, particularly for environmental cleanup programs.

Environmental Cleanup Costs Are Likely to Continue to Grow. The Administration plans to spend about \$12 billion on environmental restoration (one category of its environmental programs) during the 1995-1999 period. Historically, actual costs for cleanup projects have been two to three times higher than DoD's original estimates. If history is a guide, accomplishing those environmental projects planned within the FYDP may cost DoD about \$20 billion more than it has budgeted.²⁷ Note, however, that this estimate may overstate the problem; DoD may be better able to project environmental cleanup costs, now that it has more experience with such projects. The Administration may also choose to scale back the pace or scope of its environmental programs during the FYDP period if growth in project costs is excessive--that is, unless contractual agreements with other agencies and local communities limit its ability to alter its cleanup plans.

Contingency Operations Could Add Unanticipated Costs. One of the most contentious issues facing defense planners today is the role that the U.S. military should play in peacekeeping and other contingency operations. If the United States continues to become involved in operations such as those in

27. CBO, "Planning for Defense."

TABLE 11. "NONTRADITIONAL" DEFENSE SPENDING, FISCAL YEARS 1990-1995
(In billions of 1995 dollars of budget authority)

	<u>Actual</u>				<u>Estimated</u>	
	1990	1991	1992	1993	1994	1995
DoD Environmental Activities	1.6	2.8	4.0	5.3	5.6	5.2
Defense Conversion and Dual-Use Technology ^a	0.6	0.7	1.2	2.9	3.4	3.3
Drug Interdiction and Counterdrug Activities	0.5	1.2	1.3	1.2	0.9	0.7
Former Soviet Union Threat Reduction	0	0	0.2	0.4	0.4	0.4
Humanitarian Assistance	b	b	0.2	0.2	0.1	0.1
Other Miscellaneous ^c	<u>0.8</u>	<u>1.0</u>	<u>1.2</u>	<u>1.3</u>	<u>1.4</u>	<u>1.3</u>
Total	3.5	5.7	8.0	11.2	11.8	10.9
Memorandum: Peacekeeping ^d	n.a.	n.a.	n.a.	1.5	1.5	2.3 ^e

SOURCE: Adapted from Stephen Daggett and Keith Berner, "Items in the Department of Defense Budget That May Not Be Directly Related to Traditional Military Capabilities," Congressional Research Service Memorandum (March 21, 1994).

NOTES: These programs were identified from a broad range of activities that may or may not contribute to DoD's military capabilities.

n.a. = not available.

- a. Because of accounting changes, values for 1990 to 1992 are not strictly comparable to those for 1993 to 1995.
- b. Less than \$50 million.
- c. This category includes a number of small programs that are financed primarily in the Operation and Maintenance title, such as funding for the Summer Olympics, World Cup Soccer, disaster relief, and a variety of museum projects.
- d. Peacekeeping operations have been accommodated in the past through supplemental appropriations.
- e. Administration officials have announced that they plan to request a \$2.3 billion supplemental appropriation early in calendar year 1995.

Somalia, Rwanda, and Haiti, DoD could face higher-than-anticipated costs and could be forced to cut other activities to accommodate those expenditures. Some Members of Congress believe that the U.S. military's responsibilities in peacekeeping operations have expanded too quickly and that the resources they require reduce those needed to ensure a strong response if the United States becomes involved in combat operations more closely linked to its national interests. Other Members argue, however, that in the current geopolitical environment, it is much more likely that the U.S. military will become involved in peacekeeping and humanitarian missions than in major regional conflicts.

There is also the question of how peacekeeping operations should be financed. Under current practice, the Congress passes supplemental appropriations for the incremental costs of U.S. involvement in wars (such as that in the Persian Gulf) and for unilateral actions associated with peacekeeping and other contingency operations. In 1993, DoD received \$1.4 billion in supplemental appropriations to cover the costs of unilateral activities in northern and southern Iraq and Somalia. For 1994, DoD received a \$1.2 billion supplemental for operations in Somalia, Bosnia, Iraq, and Haiti. DoD received an additional \$299 million for costs accrued in 1994 associated with relief operations in Rwanda and processing migrants in and around Cuba.

That second installment of funding, however, was not appropriated until the start of fiscal year 1995, and the quick succession of U.S. operations in Rwanda, Cuba, Haiti, and Kuwait triggered a cash flow problem. DoD reduced funding for training and operations as a result. Administration officials have stated that they intend to request a supplemental appropriation of more than \$2 billion in 1995.

In a related matter, the Administration had proposed funding part of the U.S. assessment for United Nations contingency operations—some \$300 million for 1995—in the defense budget. Historically, those assessments have been financed through Department of State funds, but because peacekeeping is a part of DoD's national security strategy, Administration officials argue that part of the costs should be borne within its budget. Critics of the measure contend that it would be more appropriate to apply the money to budget accounts that support the readiness of U.S. troops. Ultimately, the Congress did not support this measure in its defense authorization and appropriation bills for 1995.

Cost Growth in Acquisition Programs

The Administration proposes to spend \$423 billion to develop and procure major weapons and other equipment between 1995 and 1999—an average of \$85 billion per year. Although the FYDP envisions beginning the development of fewer weapons than previous defense plans, the Administration's blueprint includes a number of large weapons programs that are likely to experience cost growth. Examples are the Air Force's F-22 fighter, the Navy's new attack submarine, and the Army's Comanche helicopter.

History has shown that the cost of complex military systems tends to grow beyond early projections, particularly while the systems are under development and in the first few years of production. But how much pressure might DoD experience from growth in weapons costs during the 1995-1999 period? Because it is difficult to make a precise estimate, CBO tried to put some bounds on the magnitude of likely cost growth.

Research has shown that unanticipated cost growth has averaged 20 percent to 50 percent over the life of weapons programs, including both the development and production phases.²⁸ That research examined a variety of programs that differed significantly in type, technical difficulty, stage of development, and duration. Analysts at the Institute for Defense Analyses (IDA), for example, found that in the programs they observed, cumulative cost growth measured from estimates made at the start of engineering and manufacturing development (Milestone II) ranged as high as around 100 percent for tactical missiles and combat vehicles to about 15 percent for ships.²⁹ Note, however, that cost growth for a weapon system during any five-year interval of its development and production cycle may differ considerably from cost growth over its entire life.

CBO looked at plans for procurement and RDT&E spending for nearly 50 major weapon systems that are at risk of significant cost growth. Since most weapons experience little, if any, cost growth late in their production cycles, CBO did not include spending for mature programs. However, most new systems were included: the Army's Comanche and Apache Longbow programs; the Navy's F-14 fighter upgrade and the F/A-18E/F and V-22 aircraft; the Seawolf and the new attack submarine programs; the Air Force's F-22 fighter and Tri-Service Standoff Attack Missile; and spending for theater missile defense programs, among others. Using budget authority planned for

28. See, for example, Tyson and others, "The Effects of Management Initiatives," and Jeff Drezner and others, *An Analysis of Weapon System Cost Growth*, MR-291-AF (Santa Monica, Calif.: RAND, 1993).

29. Tyson and others, "The Effects of Management Initiatives," pp. ES2-ES3.

major weapon systems as recorded in recent selected acquisition reports (SARs) and Congressional data sheets, CBO found that spending for those programs came to \$94 billion, or 22 percent of total procurement and RDT&E funding planned for the 1995-1999 period.³⁰

The degree to which a program is at risk of cost growth depends, in part, on whether its costs have already risen and whether budget planners have anticipated more growth in their spending proposals for the future. To create an upper-bound estimate, CBO assumed that DoD acquisition planners had not built cost growth into the FYDP estimates. For each high-risk weapon system, CBO increased planned spending by the average percentage cost growth observed by IDA analysts for comparable types of platforms or systems.³¹ As an example, for tactical aircraft, CBO applied the IDA estimate of 22 percent growth in development costs and 25 percent growth in production costs to those programs' planned levels of RDT&E and procurement spending for the 1996-1999 period.³²

This approach yields an estimate of \$31 billion in additional costs during the FYDP. However, that estimate probably overstates the problem because it fails to take into account the extent to which cost growth was already reflected in planned levels of spending. To estimate a lower bound, CBO assumed that all but the average annual unanticipated increase in costs was already reflected in planned spending for high-risk systems. For the previous example of tactical aircraft programs, IDA analysts estimated that such programs experienced unanticipated cost growth of 22 percent over a six-year developmental period and growth in procurement costs of 25 percent over a production period of about 11 years. Converting those two averages into annual rates yields unanticipated cost growth of 3 percent per year for RDT&E spending and 2 percent per year for procurement. Applying those annual rates to planned spending for high-risk systems yields an estimate of \$8 billion in cost growth from 1996 to 1999.

CBO's range of \$8 billion to \$31 billion answers the question of how much weapon system costs might grow if current acquisition plans were unchanged through 1999. But a different question might be more appropriate:

30. The Defense Department submits SARs to the Congress for those systems that require more than \$300 million in RDT&E funding or an eventual total expenditure of \$1.8 billion for procurement (as measured in 1990 dollars). Classified programs are not included.

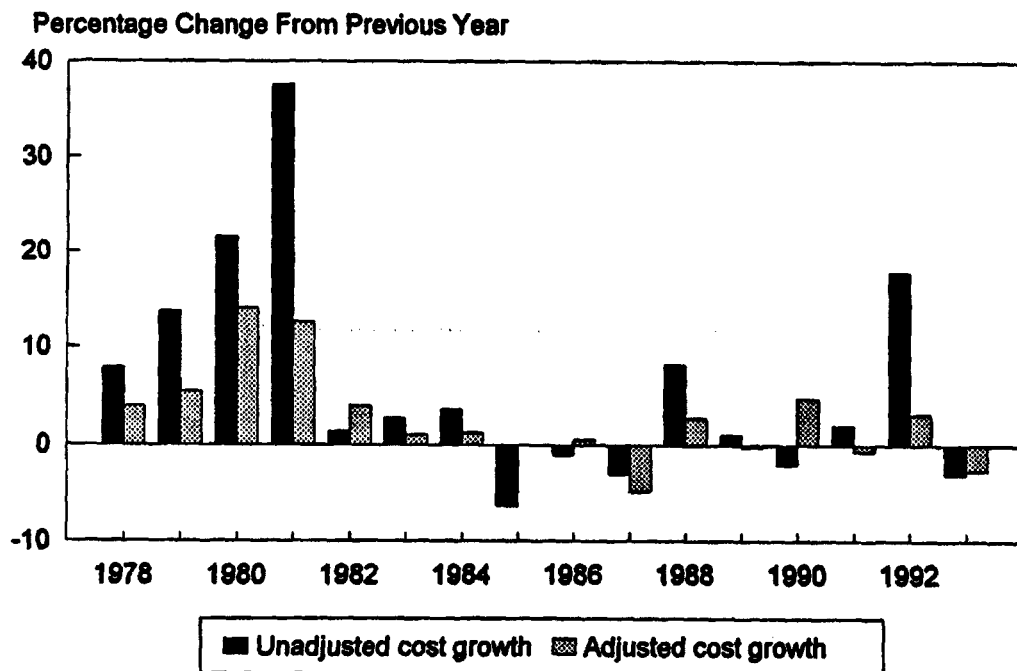
31. Tyson and others, "The Effects of Management Initiatives."

32. Because DoD planners had relatively up-to-date information about the status of high-risk programs when they developed their budget estimates for 1995, CBO assumed that program managers would be able to manage unanticipated cost growth in that year through relatively minor changes to program plans.

How will rising weapons costs affect total DoD appropriations for procurement and development? As weapons become more costly than expected, the Congress and the Administration usually react by canceling some programs and stretching out others. That process in turn reduces the pace of modernization and, to some degree, military capability. As acquisition programs are stretched out, unit costs grow. In any given year, it is difficult to predict the net effect of those actions and reactions on DoD's total investment spending.

One measure of the unpredictable nature of defense investment spending is the annual change in total program acquisition costs of major weapons programs (see Figure 2). Major weapon systems are defined here as those programs for which DoD submits a SAR to the Congress. Within the SARs, DoD estimates the RDT&E, procurement, and military construction costs for

FIGURE 2. ANNUAL CHANGE IN TOTAL PROGRAM ACQUISITION COSTS FOR MAJOR WEAPON SYSTEMS, FISCAL YEARS 1978-1993



SOURCE: Congressional Budget Office.

NOTE: Program acquisition costs include actual past and expected future expenditures for research, development, test, and evaluation; procurement; and military construction. Unadjusted values are changes over the previous year's value in the grand total of the Defense Department's current estimate of program acquisition costs for all major weapon systems. Adjusted values exclude changes associated with revised assumptions about inflation and changes in the expected quantities of weapons to be procured. Classified programs are not included.

major systems over their entire acquisition cycle—that is, actual costs for items or services that have already been delivered as well as the expected costs of purchases not yet completed. From year to year, the total program acquisition cost of SAR systems changes because some new weapons are added and those that are terminated or have completed most of their production are dropped. The percentage change in that value between any two years reflects changes in the mix of SAR systems, the expected quantity of weapons to be purchased, assumptions about future rates of inflation, and the combined cost growth of each weapon system.

Note that the annual changes shown in Figure 2 do not appear to follow any particular pattern, even after adjustments in assumptions about inflation and procurement quantities. In several recent years, total spending for SAR programs actually declined, although individual weapon systems have continued to experience significant cost growth. That outcome is the result of the Congress's and the Administration's canceling, stretching out, or deferring many major modernization programs.

The Next BRAC Round

One other area of concern within the Administration's plan is base closure costs and savings. The funds programmed within the FYDP for the next base realignment and closure round in 1995 do not appear to match DoD's goals for that process. In a January 1994 memo, William Perry, then Deputy Secretary of Defense, noted that DoD's goal for the BRAC round scheduled for 1995 would be to reduce plant replacement value by 15 percent, roughly the same amount as that achieved by all three previous BRAC rounds combined. Yet Secretary Perry and Joint Chiefs of Staff Chairman John Shalikashvili seemed to back away from that goal somewhat in a May 1994 press release that noted the following:

Too much, too soon jeopardizes our current program; too little, too late jeopardizes our future program. These are the considerations that will determine the size and shape of the closings we will recommend to the Base Closure and Realignment Commission for 1995. If closures beyond the amount we can responsibly accomplish in 1995 are required or force structure requirements change, we will seek authority for future BRAC rounds.³³

33. Joint press release of Secretary of Defense William J. Perry and Chairman of the Joint Chiefs of Staff General John Shalikashvili, May 11, 1994.

A more recent press report suggests that service officials are once again being told to close bases aggressively in the 1995 round in order to lower DoD's overhead costs.³⁴

A relatively small amount has been budgeted for the one-time costs associated with closing bases and other facilities. The Administration's FYDP includes a total of \$11.4 billion for the up-front costs associated with base realignments and closures from the 1988, 1991, 1993, and 1995 rounds.³⁵ Only \$2.6 billion of that total, however, is for the 1995 round, and no funds have been included for BRAC costs in 1999. According to DoD data, the FYDP assumes \$16.4 billion in savings associated with base closures from all four rounds combined (excluding revenues from the sale of land), \$3.8 billion of which should result from the 1995 round.

How does that funding compare with the funding provided for previous BRAC rounds? As a rough approximation, CBO analyzed the latest available data on the first four years of budget requests for the 1988, 1991, and 1993 rounds (BRAC-88, BRAC-91, and BRAC-93, respectively). If those funding streams were to have begun in 1996—the first year in which DoD will request budget authority for closure costs associated with the 1995 round—DoD would have requested \$3.0 billion for BRAC-88, \$4.3 billion for BRAC-91, and \$7.0 billion for BRAC-93 within the current FYDP, or a total of \$14.2 billion (see Table 12). Instead, the Administration has budgeted only \$2.6 billion. Thus, if the magnitude of the next closure round was equal to that of the first three combined, DoD would have budgeted \$11.6 billion too little for up-front closure costs.

In fairness, DoD may have learned from its earlier experiences how to conduct closures more cost-effectively, or it may have realized that the pace of closure operations proceeds more slowly than under original plans and adjusted its associated cost streams accordingly. Additionally, the types of base closures in BRAC-95 may differ somewhat from earlier ones—they may, for example, involve relocating fewer personnel and facilities. Nonetheless, the difference between the Administration's plan and recent experience is striking.

34. Craig Rasmussen, "Military Services Told to Close as Many Bases as Possible," *Defense Week* (June 6, 1994), p. 13.

35. Funds for base closure activities—such as moving equipment and personnel, cleaning up contaminated sites, and the like—are appropriated within a special BRAC account rather than through numerous appropriation accounts. Savings that result from base closures, however, are spread throughout the budget, primarily under the O&M title.